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ANNUAL REPORT 1965



THE MERCANTILE BANK OF CANADA

AFFILIATE OF

FIRST NATIONAL CITY BANK



Toronto's new City Hall provides an eye-catching setting for this group photo of the staff of Toronto office, The Mercantile Bank of Canada.

THE MERCANTILE BANK OF CANADA
AFFILIATE OF
FIRST NATIONAL CITY BANK

HEAD OFFICE	491 Victoria Square, Montreal
MONTREAL OFFICE	495 Victoria Square
TORONTO OFFICE	210 Bay Street
WINNIPEG OFFICE	244 Portage Avenue
CALGARY OFFICE	700 - 8th Avenue S.W.
VANCOUVER OFFICE	540 Burrard Street
HALIFAX OFFICE	1 Sackville Place
QUEBEC OFFICE	580 Grande Allée

12TH ANNUAL REPORT

Submitted to the Annual General Meeting of Shareholders
held in Montreal on December 8, 1965.



A NATIONAL NETWORK OF BANKING OFFICES

The branch structure of The Mercantile Bank of Canada now comprises seven fully staffed offices in addition to Montreal head office and International Department. These offices are located at Montreal, Toronto, Winnipeg, Calgary, Vancouver, Halifax and Quebec City. Four branches were opened in the past two years.

Every office of The Mercantile Bank reflects in its efficient, yet attractive layout and appointments — a new look in banking premises. By drawing on regional and local art themes, each branch has achieved a distinctive decor.

Through this growing network of strategically located offices, The Mercantile Bank of Canada offers the services of a skilled team of business bankers. Each branch can also provide full international banking services through 172 affiliated offices outside North America.

MONTREAL BRANCH





HALIFAX



CALGARY



WINNIPEG

AD OFFICE AND INTERNATIONAL DEPARTMENT





DIRECTORS' REPORT

The Directors take pleasure in submitting to the Shareholders the Twelfth Annual Report on the Bank's operations for the financial period ended October 31st, 1965, together with a Statement of the Assets and Liabilities of the Bank as at that date.

STATEMENT OF UNDIVIDED PROFITS

Balance of profit for the year before provision for depreciation of bank premises, but after provision for staff pension fund and after transfer to inner reserves out of which provision has been made for diminution in value of investments and loans	\$56,672
Depreciation of bank premises	55,045
Available for distribution	1,627
Balance undivided profits September 30th, 1964 ..	6,240
Balance undivided profits October 31st, 1965	<u>\$ 7,867</u>

R. P. MACFADDEN
President

S. B. CLIFFORD
General Manager

In April of this year a branch was opened at Halifax and one will be opened at Quebec early in December.

Under the authority of paragraph 47 of By-Law No. 1, the Directors have changed the fiscal year end of the Bank from September 30th to October 31st. This action was taken to conform with the known intention of the Government to amend the Bank Act in this regard.

Since the last Annual Meeting, Messrs. L. W. Bond, C. F. Karsten and H. J. Knottnerus have resigned from the Board and Mr. A. C. Howkins, a Deputy General Manager of the Bank, and Mr. R. Fraser Elliott, Q.C. have been elected to the Board. Mr. Howkins has also been appointed a Vice-President.

The loyal and efficient services of the staff are gratefully acknowledged.

R. P. MACFADDEN, President
Montreal, December 1st, 1965

OFFICERS

Chairman:

J. S. Rockefeller

President:

R. P. MacFadden

Exec. Vice-Pres. and
General Manager:

S. B. Clifford

Vice-Presidents:

C. B. Brown

A. C. Howkins

Deputy General Managers:

A. C. Howkins

D. C. Langford

Assistant General Manager:

R. P. Mullane

Secretary:

G. S. Lynch

Supervisors:

J. R. Edds

A. G. Forman

Foreign Manager:

A. F. Lucas

Manager International Dept.

H. P. Derkx

SENIOR BRANCH OFFICERS

Montreal:

H. F. Henry, Supervisor

A. H. Stampleman, Manager

Toronto:

C. W. Arnold, Supervisor

A. F. Hiron, Manager

Winnipeg:

D. C. Salter, Supervisor

Calgary:

D. M. Drew, Manager

J. F. Marx, Manager
Oil & Gas Dept.

Vancouver:

W. S. Hulton, Manager

Halifax:

T. C. Achilles, Manager

Quebec City:

E. S. H. Bulman, Manager

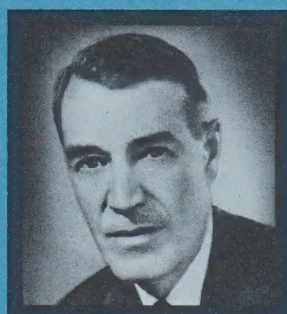
DIRECTORS



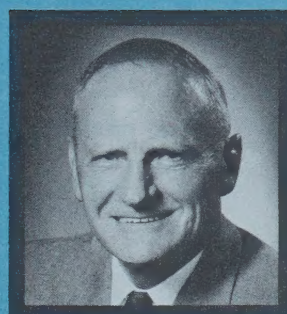
A. Bachand
MONTREAL
Assistant to the Rector,
University of Montreal



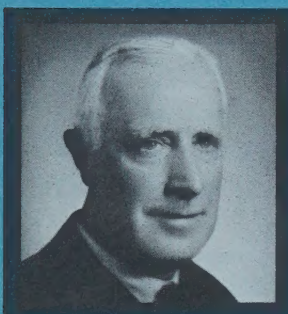
H. A. Benham
WINNIPEG
Chairman, The
Winnipeg Foundation



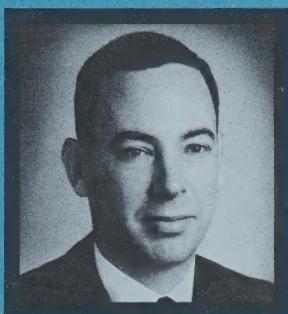
J. L. Black
SACKVILLE
Chairman, The New Brunswick
Telephone Co. Ltd.



W. J. Borrie
VANCOUVER
President, Pemberton
Securities Limited



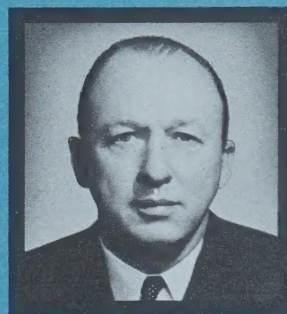
C. B. Brown
MONTREAL
President, Turner & Newall
(Overseas) Ltd.



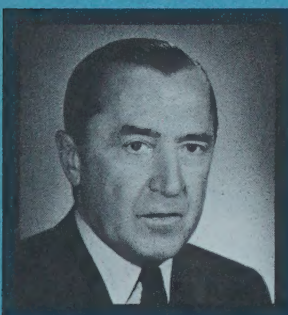
S. B. Clifford
MONTREAL
Executive Vice-President
and General Manager



P. Côté
QUEBEC
Controller, Laval
Dairy Reg'd



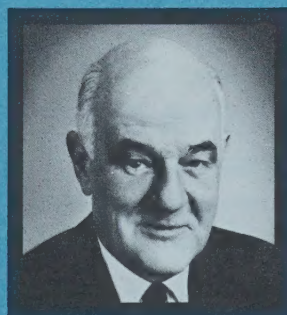
R. F. Elliott, Q.C.
MONTREAL
Stikeman, Elliott, Tamaki,
Mercier & Turner



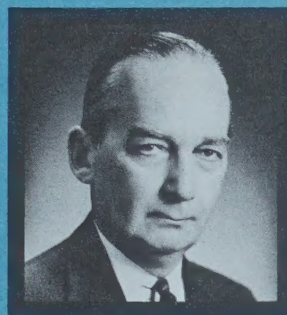
Hon. L. P. Gélinas
MONTREAL
President, Geoffrion, Robert
& Gélinas Inc.



A. C. Howkins
TORONTO
Vice-President and
Deputy General Manager



R. P. MacFadden
NEW YORK
President



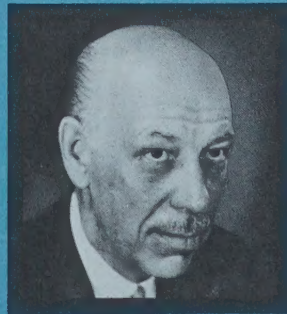
K. B. Palmer
O.B.E. Q.C., D.C.L.
TORONTO
Borden, Elliot, Kelley & Palmer



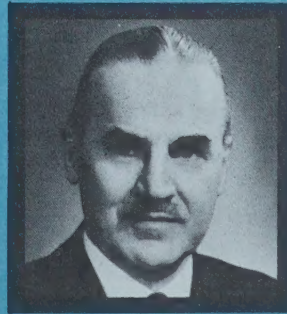
J. S. Rockefeller
NEW YORK
Chairman



A. T. Seedhouse
TORONTO
President, Manufacturers
Life Insurance Company



E. H. Tanner, O.B.E.
CALGARY
Chairman, Triad Oil
Co. Ltd.



Maj.-Gen. A. E. Walford
C.B., C.B.E., M.M.
MONTREAL
Chairman, Canadian Vickers Ltd.



THE MERCANTILE BANK OF CANADA

Statement of Assets and Liabilities — October 31, 1965

ASSETS

Gold and coin		\$ 22,296
Notes of and deposits with Bank of Canada		2,575,777
Government and bank notes other than Canadian		100,507
Deposits with other banks		60,118,494
Cheques and other items in transit, net		<u>2,646,689</u>
		65,463,763
Government of Canada direct and guaranteed securities, at amortized value	\$12,157,882	
Canadian provincial government direct and guaranteed securities, at amortized value	335,206	
Other securities, not exceeding market value	<u>8,653,228</u>	21,146,316
Day-to-day, call and short loans to investment dealers and brokers, secured		<u>5,195,218</u>
		91,805,297
Other current loans, less provision for estimated loss .	124,212,015	
Non-current loans, less provision for estimated loss ..	<u>3,492</u>	124,215,507
Bank premises at cost, less amounts written off		408,771
Customers' liability under acceptances, guarantees and letters of credit, as per contra		6,153,617
Other assets		<u>98,916</u>
		<u>\$222,682,108</u>

R. P. MACFADDEN
President

S. B. CLIFFORD
General Manager

LIABILITIES

Deposits by Government of Canada	\$ 244,129
Deposits by Canadian provincial governments	7,538,485
Deposits by other banks	13,188,016
Personal savings deposits payable after notice, in Canada, in Canadian currency	1,844,969
Other deposits	<u>183,162,758</u>
	205,978,357
Acceptances, guarantees and letters of credit	6,153,617
Other liabilities	<u>542,267</u>
	212,674,241
Capital:	
Authorized —	
1,000,000 shares of \$10 each	<u>\$10,000,000</u>
Paid up —	
800,000 shares issued and fully paid .	\$8,000,000
Rest account	2,000,000
Undivided profits	<u>7,867</u> <u>10,007,867</u>
	<u>\$222,682,108</u>

During the period ended October 31, 1965, 400,000 shares of capital stock were issued for \$5,000,000 of which \$1,000,000 was credited to Rest account.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the statement of assets and liabilities of The Mercantile Bank of Canada as of October 31, 1965, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

J. E. MAHEU, C.A.
of Maheu, Noel & Cie.

The above statement of assets and liabilities is as shown by the books at the head office and the certified returns from the branches. The transactions of the Bank which have come under our notice have, in our opinion, been within its powers.

In our opinion, the above statement of assets and liabilities presents fairly the financial position of the Bank as of October 31, 1965.

J. S. GRANT, C.A.
of Peat, Marwick, Mitchell & Co.

Montreal, P.Q., December 1, 1965.



PRESIDENT'S ADDRESS

Sparked by rising consumer demand—supported in part by the 10 per cent reduction in personal income taxes effective last June—the Canadian economy marked the fifth year of its current expansion in 1965. Industrial production, particularly of consumer durables, made impressive gains and despite the postponement of portions of the public works program, the rate of capital investment accelerated sharply, with manufacturing receiving the bulk of the new investment. The chemical, petroleum, automobile, and pulp and paper industries received particularly large infusions of new capital. Investment in commercial construction, public projects, roadbuilding and housing also rose appreciably. Farm income has risen as a result of excellent returns from livestock and meat. High U.S. beef prices helped produce the heaviest cattle and beef shipments in many years.

Imports for the first 9 months of 1965 were 12 per cent above the same period the previous year, while exports rose by only 1 per cent. The trade surplus had dwindled to \$30 million, for the 9 months of 1965 from \$126 million in the like period of 1964. Although our reserves dropped off somewhat during the first half of the year, they made a good comeback and

totaled US \$2.64 billion at the end of October. This reflects in part the demand for Canadian dollars that followed the orders for \$450 million wheat from the USSR.

The duration of our present prosperity has been unusually long. This suggests that we might well pause and reflect on where we are and where we are going. Unlike earlier postwar expansions, this one is broadly based and export demand has received strong support from the 1963 and 1965 Chinese and Russian wheat purchases. Compared with most Western European countries, we have achieved substantial economic growth without excessive price increases, partly because of rising productivity.

There are, however, some warning signals, and a realistic appraisal demands that they be observed. Rising demand this year has recently exerted pressure on prices and costs. The continuous 5-year expansion in industrial activity has put a strain on industrial capacity. Skilled labor and some types of material are in short supply in some regions. The June 1965 income tax reduction will be offset by personal contributions to the new pension plan starting in January 1966. Clearly the time has come to sail a cautious course to keep the economy on a

sound and even keel.

The effective job being done by the federal monetary officials must be supported by the fiscal authorities in the provincial and municipal governments. In the private sector, caution and restraint on the part of industrial

and financial management contribute substantially to the maintenance of an orderly business climate and can help prolong the present prosperity.

ROBERT P. MacFADDEN

Annual Meeting — December 8, 1965, Montreal

REPORT OF GENERAL MANAGER

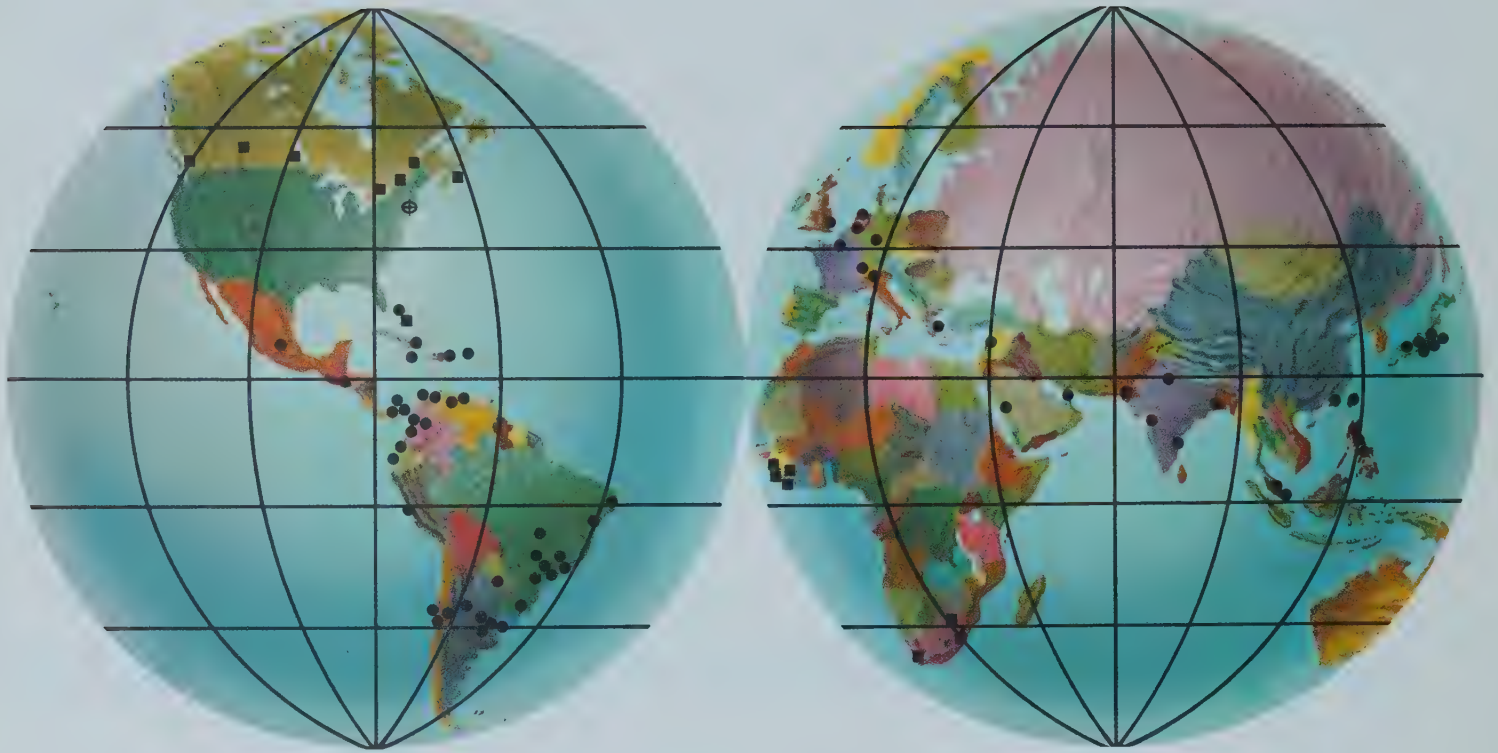
We report with pleasure on the progress of the Bank during fiscal 1965. The period under review covers thirteen months because our year end was changed to October 31 to conform to a proposed change in the Bank Act. All branches including International Department can report important growth in loans and deposits with the result that transactions handled by all operating departments have nearly doubled.

FINANCIAL REVIEW On April 1, our paid in capital and rest account was increased by \$5 million through shareholder subscription to give us a \$10 million capital base. Profits, after all charges, more than doubled this year and

were transferred in their entirety to inner contingency reserves except for the reported figure of \$1,627. Because of our growing loan business, and in accordance with applicable regulations, we have been able, and will continue for some time, to transfer substantially all of our profits to inner reserves. While the outlook for earnings is excellent, our present profitability, when related to assets or capital, is modest, due in large measure to starting-up expenses for new branches and recruiting and training of staff. Total assets climbed this year from \$125 million on September 30, 1964 to \$222 million on October 31.

Our loan portfolio reflects a broad industry

CONTINUED PAGE 14



WORLD-WIDE BANKING SERVICES

Through Fully Staffed Affiliated Offices
— Offered by The Mercantile Bank of Canada

Customers of The Mercantile Bank of Canada can avail themselves of the extensive world-wide facilities provided by their bank's affiliation with First National City Bank. The services of more than 300 banking branches and offices of affiliates — fully staffed by experienced personnel — can be quickly employed to provide on-the-spot service in 57 countries of the Free World. Canadian businessmen are invited to enquire about the extensive services and opportunities offered by this far-flung network of overseas banking offices.



FNCB FACILITIES AROUND THE WORLD

Argentina	Buenos Aires (6 branches) Cordoba Lomas de Zamora Mendoza Rosario	France	Paris	Netherlands	Amsterdam
Bahamas	Nassau FIRST NATIONAL CITY TRUST COMPANY (BAHAMAS) LTD. Nassau	Germany	Berlin Frankfurt Hamburg	Pakistan	Karachi
Belgium	Brussels	Greece	Athens	Panama	Panama (3 branches) Colon
Brazil	Rio de Janeiro Belo Horizonte Brasilia Campinas Curitiba Porto Alegre Recife (Pernambuco) Salvador (Bahia) Santos Sao Paulo (2 branches)	Guantanamo Bay	U.S. Naval Facility*	Paraguay	Asuncion (2 branches)
Canada	INTERNATIONAL TRUST COMPANY Montreal Toronto	Honduras	BANCO DE HONDURAS, S.A. Tegucigalpa (2 branches) Choluteca Comayaguela (2 branches) San Pedro Sula	Peru	Lima (2 branches)
Canal Zone	Balboa	Hong Kong	Hong Kong Causeway Bay Kowloon	Philippines	Manila (2 branches) Cebu Clark Air Base
Chile	Santiago Concepcion Valparaiso	India	Bombay Calcutta (2 branches) Madras New Delhi	Puerto Rico	San Juan (5 branches) Arecibo Bayamon Caguas Mayaguez (2 branches) Ponce
China, Rep. of	Taipei, Taiwan	Ireland	Dublin	Saudi Arabia	Jeddah
Colombia	Bogota (2 branches) Barranquilla Cali Cartagena Medellin	Italy	Milan	Singapore	Singapore (2 branches) Jurong
Dominican Rep.	Santo Domingo (2 branches)	Jamaica	Kingston	South Africa	THE FIRST NATIONAL CITY BANK OF NEW YORK (SOUTH AFRICA) LTD. Johannesburg Cape Town Durban Port Elizabeth
Ecuador	Quito Guayaquil	Japan	Tokyo Nagoya Osaka Yokohama Camp Zama* Iwakuni*	Switzerland	Geneva
El Salvador	San Salvador	Lebanon	Beirut	Trinidad and Tobago	Port-of-Spain
England	London (2 branches)	Liberia	THE BANK OF MONROVIA Monrovia Bomi Hills Buchanan Harbel Nimba	Trucial States	Dubai
		Malaysia	Kuala Lumpur (2 branches) Penang	United States	FIRST NATIONAL CITY BANK HEADQUARTERS New York
		Mexico	Mexico City (5 branches)	Uruguay	Montevideo (2 branches)
				Venezuela	Caracas (2 branches) Maracaibo Valencia

*Military Facility

BRANCHES AND OFFICES OF FNCB AFFILIATES

Banco de Financiacion Industrial (Induban)
Spain Madrid

Hill, Samuel & Company, Ltd.
England London

Banque Internationale pour l'Afrique Occidentale

France	Paris Bordeaux Marseilles	Dahomey	Contonou	Niger	Niamey Magaria Maradi Zinder
Cameroon	Yaounde Douala Ebolowa Garoua	Gabon	Libreville Lambarene Port-Gentil	Nigeria	Lagos Apapa Kano
Central African Republic	Bangui	Ivory Coast	Abidjan Adjame Bouake Cocody Treichville	Senegal	Dakar (2 branches) Kaolack Saint-Louis Ziguinchor
Chad	Fort-Lamy	Mali	Bamako	Togo	Lome
Congo Republic	Brazzaville Pointe-Noire	Mauritania, Islamic Rep. of	Nouakchott Port-Etienne	Upper Volta	Ouagadougou Bobo-Dioulasso



REPORT OF GENERAL MANAGER

diversification, encompassing all segments of Canadian business. An analysis of all corporate borrowers of \$10,000 and over, excluding short term money market borrowers, shows that 86.6% of our borrowers were companies wholly owned or controlled 50% or more by Canadians, and of this total 84.5% had a net worth of less than \$500,000. 8.5% of our borrowers are U.S. companies, or their subsidiaries in Canada, with the remaining 4.9% domiciled outside of North America.

During the year the cost of funds increased significantly for both U.S. and Canadian dollars and are now at their highest levels in recent history.

OPERATIONS Greater national coverage was obtained with the opening of our branch in Halifax in April. Our second branch in the Province of Quebec, Quebec City, will open in mid-December. Because of our expansion, major efforts this year have been directed towards reorganizing and improving operating procedures and controls. We can report real progress particularly in recruiting and training of qualified personnel to handle our growing volume. In the Fall of 1966 the Bank's Ontario headquarters and Toronto Branch expect to move to expanded quarters in a new skyscraper being built in the heart of downtown Toronto, located between Richmond and Adelaide Streets.

PERSONNEL Our staff has increased 25% during the year to 277, and we welcome the fine young Canadian men and women who have joined our organization from the high schools and universities. We are continuing our recruiting program to attract promising men and women to a banking career. This program provides the sophisticated development of the individual within the Bank and also offers subsidized educational facilities on the outside. A number of the young Canadians who entered this program during the past 18 months now hold responsible assignments across the country.

We wish to pay particular tribute to our staff who have endured numerous changes in procedures and many long hours this past year. Tangible proof of their dedication and loyalty can be seen in personnel turnover figures which are well below last year and, in fact, the lowest in our history.

OUTLOOK We expect next year to show continued good growth in the Bank's Canadian business, and a major effort will be devoted to improving our market penetration in those cities where we have branches. We will continue to perfect operating efficiencies, and develop our staff and officers as we plan for future expansion.

STEWART B. CLIFFORD

Annual Meeting — December 8, 1965, Montreal

CURRENT ADVERTISING TELLS THE STORY

Newspaper advertising now appearing across Canada outlines the services, facilities and distinctive philosophy of The Mercantile Bank of Canada.

The advertising messages stress the "total financing concept" which Mercantile applies to its business banking services. Thus, readers of these messages are advised that "All our officers are thoroughly and professionally trained to think in terms of total corporate financing." . . . and also that "All our officers are trained and experienced in using this concept ('total financing'), and they have been picked for their background in the industries of the area they serve. They are fully capable in making creative application of advanced financing methods and techniques."

The advantages of Mercantile's affiliation with First National City Bank are outlined in these advertisements. There is also a reminder of the unique access to Citibank's overseas offices and affiliates which is available to Canadian business through the Mercantile Bank.

You wouldn't want your banker to run your business... or would you?



A good business banker is a thoughtful and professionally trained person. He is a banker in total corporate finance and knows how to use bank services to help solve your business problem. He will work for you like a partner.

And he gets all the banking he needs. Because of our affiliation with First National City Bank, he can pick up the phone and get access to the financial resources of the world's largest bank.

The officers in each Mercantile branch have been hand-picked for their knowledge and experience in business banking. In each city where we have a branch, they are fully able to get down to specifics with you immediately.

We also have the capacity to take the necessary out of foreign financing. Through this, all of First National's fully staffed branches in 51 countries are part of the Mercantile network which can give you a more banking service intelligently responsive to the business world.

You have our facilities to use as well as the understanding that your company, after all, makes us help you grow, but you can't.

The Mercantile Bank of Canada
Banker, Merchant, Finance, Insurance, Trust, Treasurer
Affiliated with First National City Bank

Does your banker ask how short you are ...or how tall you want to be?



Of course we'll write a business loan to help you in growth or expansion. But there is a much more you can get out of us, especially if you're concerned with advanced financing techniques, or when traditional banking methods don't apply.

All our officers are thoroughly and professionally trained to think in terms of total corporate financing. We can show the highest to you in other ways. In helping you find the most money to raise and the best financing plan for your business.

Or you study of your particular need for funds might show that you would be better off raising money

you in foreign financing and explain the reasons of foreign financing. We can pick up the phone and put First National's own international staff to work for you - or put you in direct touch with fully staffed offices in 51 other countries.

You have our facilities to use as well as our staff. We'll work for you like a partner.

The Mercantile Bank of Canada
Banker, Merchant, Finance, Insurance, Trust, Treasurer
Affiliated with First National City Bank

An explanation of how our total financing concept can work for you.



When you ask us for money, we want to help you in your need for funds. We'll work for you like a partner.

All our officers are trained and experienced in using this concept, and they're hand-picked for their background in the industries of the area they serve. They are fully capable in making creative application of advanced financing methods and techniques.

We want you to be successful. After all, unless you grow and prosper, how can we? Make Mercantile your wholehearted banker. We'll work for you like a partner.

The Mercantile Bank of Canada
Banker, Merchant, Finance, Insurance, Trust, Treasurer
Affiliated with First National City Bank



THE MERCANTILE BANK OF CANADA

AFFILIATE OF

FIRST NATIONAL CITY BANK